Emirates Telecommunications Group Company PJSC 'Etisalat Group'

Earnings Release Second Quarter 2016

27 July 2016

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Financial Highlights for Q2 2016

- Aggregate subscriber base reached 163 million representing a year over year increase of 1%;
- Consolidated revenues amounted to AED 13.3 billion and increased year over year by 2%;
- Consolidated EBITDA totaled AED 6.8 billion, resulting in EBITDA margin of 51%;
- Consolidated net profit after Federal Royalty amounted to AED 2.3 billion resulting in a net profit margin of 17% and increased year over year by 51%;
- Proposed interim dividend for the first half of the fiscal year 2016 of 40 fils per share; and
- Consolidated capital spending decreased by 17% to AED 1.8 billion, representing 13% of the consolidated revenues.

Key Developments in Q2 2016

- Credit Ratings Agencies Standards & Poor's and Moody's affirmed Etisalat Group's high credit rating at AA-/Aa3;
- Etisalat Group named as one of a few major partners of Dubai's Expo 2020 mega event where it will be involved in creating the infrastructure for the Expo site.
- Etisalat Group in high-speed download trials with Huawei to deliver first MEA 10Gbps broadband service
- Etisalat Group and Huawei successfully completes the first trial of smart parking in the Middle East, which ran on Etisalat's live network.

Statement from Mohamed Eissa al-Suwaidi, Chairman of Etisalat Group

Etisalat Group Chairman H.E. Mohamed Eissa al-Suwaidi said: "We have succeeded in increasing our profits in the first half of 2016 and enhancing our performance in a way that fulfils our long fruitful journey. Etisalat Group owes this success first and foremost to the continued support of the government of the United Arab Emirates, which has ensured that we continue to aspire forward with confidence and also to adapt to the rapid developments and changes faced by the telecom industry."

Al Suwaidi added: "Our customers are vital to anything that we do and they are the main reason behind our success. We highly appreciate our customer's trust, which pushes us to continue our hard work to meet their needs and aspirations in every market where we operate. We consider the loyalty of millions of our customers for more than four decades as dearest to our hearts. This loyalty motivates us to continue to provide innovative solutions that allow us to offer our customers value-added services based on a set of values that reflects our deep understanding of their needs and reflects on our customer's satisfaction and happiness."

His Excellency added: "I would also like to express my sincere thanks and appreciation to the management of Etisalat Group for the tangible changes that were performed in the last period, which resulted in achieving the results that we aspire to. These changes contributed to creating a stimulating competitive environment, which helps raise the Group's performance and level of innovation, while reflecting positively on the interests of our customers and shareholders alike."

He reiterated: "Etisalat Group has a leadership role in the telecommunications and Information Technology sector worldwide. The strong financial results in the second quarter of 2016 provide a solid ground for further growth in the rest of the year. Through our fully-fledged expertise in the fields of telecoms, our ability to keep pace with the latest technological innovations, and our constant investment in the development of our infrastructure and networks, we are fully ready to contribute to the UAE's vision 2021 and meet the aspirations of Expo 2020."

Statement from Saleh Al Abdooli, CEO of Etisalat Group

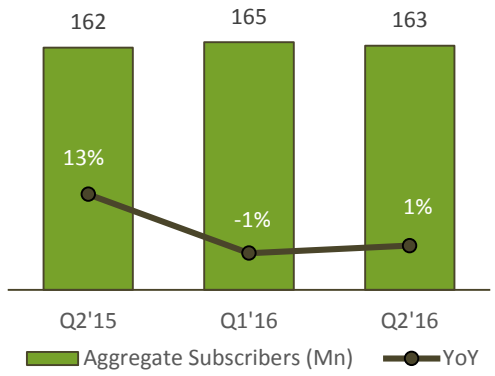
Eng. Saleh Al Abdooli, Chief Executive Officer of Etisalat Group said: "Etisalat Group's performance in the first half of 2016 maintains our record of solid performance and consolidates our position as a leading operator in emerging markets. Therefore, enabling us to continue to offer significant value for our shareholders, whilst being able to make the investment in innovative solutions that is vital to maintain our leading role in one of the world's fastest evolving industries."

He continued, "While the industry is renowned for the speed of change, Etisalat Group is also under-going positive change. The re-structuring of the company, which was announced earlier this year, was finalised during the second quarter of 2016. It was designed to help the delivery of our strategic objectives and enhance overall performance.

"We are already putting in place the network and partnerships that will deliver the benefits from changes in the telecom industry. Etisalat Group is a strong supporter of the Smart City concept. The partnerships with the EXPO 2020 team and with Dubai Parks and Resorts, which we announced this quarter, are in line with our digital transformation strategy that Etisalat considers a priority to shape and advance Smart Cities in the UAE."

He continued, "Etisalat is the first company in the region to roll out 4G-LTE and cover around 95% of the UAE's populated areas by faster speeds. Recently, we launched the UAE's first Voice over LTE (VoLTE) service, providing customers with vastly improved quality for voice. In addition, Etisalat Group achieved a penetration rate of Fibre-to-the-Home (FTTH) of 89.4%, which is considered as one of the highest in the world." Our customers remain our priority and inspire us to continually improve our service and seek out the innovations that will bring future benefit to all."

Subscribers



Etisalat Group aggregate subscribers as at 30 June 2016 was 163 million reflecting a net gain of 1.1 million during the last 12 month period despite the subscriber disconnections in compliance with the regulatory mandated registration in various markets. Subscriber growth year over year was mainly due to operations in the UAE, Egypt, Pakistan, Afghanistan, Ivory Coast, Burkina Faso, Gabon, Benin and Niger. Quarter over quarter subscribers decreased by 1.9 million mainly due to operations in Pakistan, and Mali.

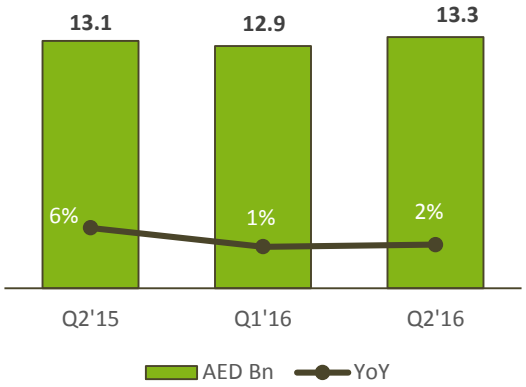
In the **UAE,** the active subscriber base grew to 12.1 million subscribers in the second quarter of 2016 representing a year on year growth of 7% and quarter over quarter growth of 1%. Subscriber growth continued to be driven by strong performance of mobile and eLife segments. The mobile subscriber base grew year on year by 9% to over 10.2 million subscribers representing a net addition of 0.8 million subscribers of which 25% was in the high quality postpaid segment. Fixed line voice only subscriber segment contracted 12% year on year primarily due to migration of subscribers to the eLife segment that continued to drive consistent growth with 10% year on year increase. Total broadband segment grew by 5% year on year to 1.1 million subscribers.

For **Maroc Telecom,** the subscriber base reached 53.0 million customers as at 30 June 2016, representing a year over year growth of 4%. This growth is mainly attributable to the operations in Morocco, Ivory Coast, Burkina Faso, Benin, Niger, Gabon and Togo.

In **Pakistan**, subscriber base increased by 7% year over year to 23.6 million customers driven by mobile operations.

Nigeria subscriber base declined to 22.3 million as at 30 June 2016, representing year over year decline of 2% attributed to sim disconnection in compliance with the regulator mandated registration process. Quarter over quarter subscriber base increased by 2%.

Revenue



Etisalat Group's consolidated revenue for the second quarter of 2016 amounted to AED 13.3 billion with growth of 2% in comparison to the same period last year and 4% quarter over quarter. Revenue growth is mainly attributed to domestic operations and Maroc Telecom Group and it was impacted by unfavorable exchange rate movements mainly in Egypt and Pakistan, and aggressive price competition in certain markets.

In the **UAE**, revenue in the second quarter increased year on year by 3% to AED 7.7 billion and 6% quarter over quarter. This is attributed to growth of the subscriber base coupled with launch of new products and bundled propositions (voice and data) to consumer and enterprise segments, strong

performance of mobile and fixed broadband segments and increased offering of business solutions, digital and ICT services.

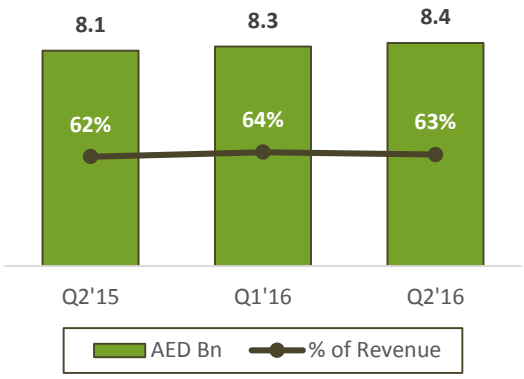
Revenues of **International consolidated operations** for the first quarter of 2016 decreased year over year by 1% to AED 5.5 billion negatively impacted by the unfavourable exchange rate movements that continued to impact financial performance of some of the countries of operations such as Egypt and Pakistan in addition to competitive pressure of mobile segment in Morocco and fixed segment in Pakistan. Revenues from International operation represented 41% of Group consolidated revenue.

Maroc Telecom consolidated revenue for the second quarter of 2016 amounted to AED 3.2 billion representing a year over year growth of 3% attributed to growth in the international subsidiaries and in Morocco. Revenue from international operations increased year over year by 10% in local currency, resulting in 44% contribution to Maroc Telecom Group's consolidated revenue, an increase of 3 points compared to second quarter of 2015. In Morocco, revenue grew by 2.4% driven by growth in the fixed line and fixed broadband segments that was partially offset by decline in the mobile segment.

In **Egypt**, revenue for the second quarter of 2016 was AED 1.1 billion, a 3% decrease year on year mainly due unfavourable exchange rate movements of Egyptian Pound against AED as growth in local currency was 12%. Revenue growth in local currency is attributed to higher data usage and voice revenues and higher revenue from international incoming traffic.

In **Pakistan** operations, revenue for the second quarter decreased by 6% to AED 1.0 billion as compared to the same period in 2015, while it increased by 1% as compared to the first quarter of 2016. Revenue continued to be impacted by a highly competitive pricing environment in the long distance international business. Revenue from mobile segment grew year over year for the second consecutive quarter driven by higher mobile data. Quarter over quarter positive performance is due to higher mobile data and fixed voice.

Operating Expenses



Consolidated operating expenses for the second quarter of 2016 was AED 8.4 billion, an increase of 4% from the same quarter of the previous year and a 2% increase from the first quarter of 2016. This increase is mainly due to higher direct costs of sales, higher depreciation expense, regulatory expense, operating rental leases and other operating expenses. Key components of operating expenses are:

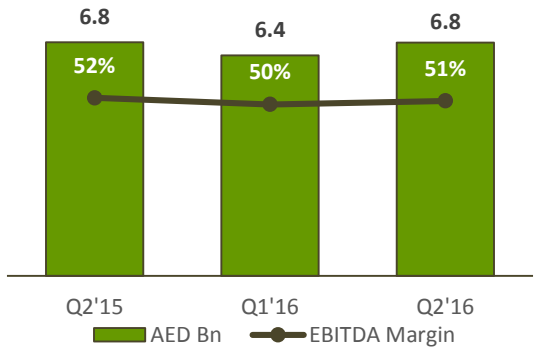
- **Staff expenses** decreased by 2% to AED 1.4 billion for the second quarter of 2016 as compared to the same period of last year. As a percentage of revenue, staff costs remained flat at 10% in the second quarter of 2016.
- **Direct cost of Sales** increased year over year by 1% to AED 3.0 billion in the second quarter of 2016, while increased by 6% as compared to the first quarter of 2016. As a percentage of revenues it was stable at 23% in comparison to the same quarter of last year and the first quarter of 2016.
- **Depreciation and Amortization expenses** increased year over year by 4% to AED 1.9 billion in the second quarter of 2016 as compared to the same period of last year while increased by 2% against the first quarter of 2016. As a percentage of revenues, depreciation and amortization expenses

remained flat at 14% in comparison to the second quarter of last year first quarter of 2016.

- **Network costs** increased by 1% to AED 0.7 billion in the second quarter of 2016 as compared to the same period in 2015 and represented 5% of revenues. On a quarter-to-quarter basis, network costs increased by 2%.
- **Marketing expenses** decreased by 17% to AED 0.2 billion in the second quarter of 2016 as compared to the same period in 2015 and represented 2% of the quarter revenues, at same level of prior year. On a quarter-to-quarter basis, marketing expenses decreased by 11%.

- **Other operating expenses** increased by 18% to AED 0.9 billion in the second quarter of 2016 as compared to the same quarter of last year and represented 10% of the quarter revenues, 1 point higher than prior year. On a quarter-to-quarter basis, other operating expenses decreased by 10%.

EBITDA



Group Consolidated EBITDA for the second quarter of 2016 was flat at AED 6.8 billion while EBITDA margin decreased by 1 point to 51% year on year. EBITDA was impacted by currency devaluation, higher regulatory charges, and higher interconnection and termination costs. Quarter over quarter, EBITDA increased by 6% with the EBITDA margin increased by 1 point to 51% as compared to the first quarter of 2016 due to higher revenue.

In the **UAE**, EBITDA in the second quarter of 2016 was AED 4.3 billion increasing year-over-year by 3% leading to an EBITDA margin of 56% in-line with previous year. EBITDA increased quarter-over-quarter by 11% with EBITDA margin up by 3 points in comparison to the first quarter of 2016. EBITDA increase is mainly attributed to higher revenue and strict cost controls.

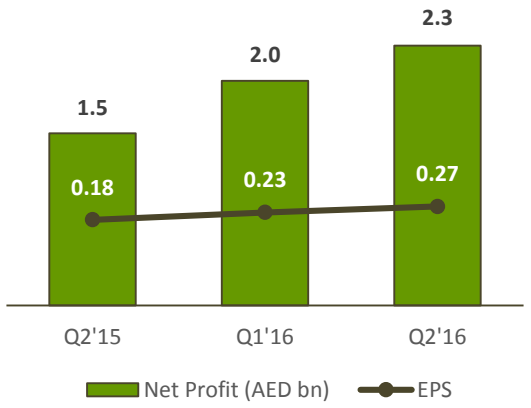
EBITDA of **International** consolidated operations decreased year over year by 1% to AED 2.5 billion in the second quarter, resulting in a 36% contribution to Group consolidated EBITDA, similar level to previous year. This decline is attributed to unfavorable movement in the exchange rate in Egypt and Pakistan.

Maroc Telecom's consolidated EBITDA for the second quarter of 2016 amounted to AED 1.6 billion, resulting in EBITDA margin of 51%. In local currency, EBITDA in absolute terms decreased by 2% impacted by increase in interconnection costs and other operating costs in Morocco and increase in regulatory fees and royalties in certain international subsidiaries.

For Egypt, EBITDA in the second quarter was stable year on year at AED 0.4 billion and EBITDA margin increased by 2 points to 40%, while EBITDA increased by 2% quarter over quarter and EBITDA margin by 5 points. EBITDA in the second quarter was impacted by unfavourable foreign exchange rate movements. In local currency, EBITDA growth currency was 20%. The improvement in EBITDA is attributed to enhanced revenue.

In **Pakistan** EBITDA in the second quarter of 2016 was flat year on year at AED 0.4 billion with EBITDA margin increasing by 2 points to 36%. Quarter over quarter EBITDA increased by 7% with EBITDA margin improving by 2 points. In local currency, EBITDA increased year over year in the second quarter by 3%. This increase is mainly due to lower network costs, lower interconnection and termination costs and lower regulatory charges in addition to improved performance of mobile segment revenue.

Net Profit & EPS

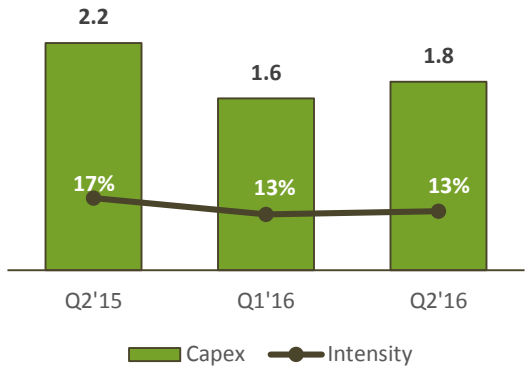


Consolidated net profit after Federal Royalty inccreased year over year by 51% to AED 2.3 billion in the secondt quarter of 2016 resulting in higher profit margin of 6 points to 17%. The increase in profit is attributed to Lower finance costs, incurring forex gain during the period as compared to forex loss in the same period of last year, lower Federal Royalty and lower share of results from associates and discontinued operations. This was partially offset by increase in depreciation charges and taxation.

Earnings per share (EPS) amounted to AED 0.27 in the second quarter of 2016, representing a 51% increase from the same period last year.

The Board of Directors has approved an interim dividend distribution for the six months period ended 30 June 2016 at the rate of 40 fils per share. Dividend distribution of 40 fils per share will commence from 14 August 2016 to those shareholders registered in the Shareholders' Register at the close of the business day on 7 August 2016.

Capex



Consolidated capital expenditure decreased year over year by 17% to AED 1.8 billion in the second quarter of 2016 resulting in a capital intensity ratio of 13%. This decrease is due to lower capital spending in the domestic and International operations.

In the **UAE,** capital expenditure in the second quarter was committed to modernization of mobile network and maintenance. Capital expenditure during the quarter amounted to AED 0.6 billion, a 33% decrease in comparison to the same period last year. Capital intensity ratio was 8%, 4 points lower than the same quarter of the prior year and 2 points higher than the first quarter of 2016.

Capital expenditures in consolidated **international operations** in the first quarter of 2016 decreased by 4% to AED 1.2 billion compared to the same period last year and represented 67% of total Group capital expenditure.

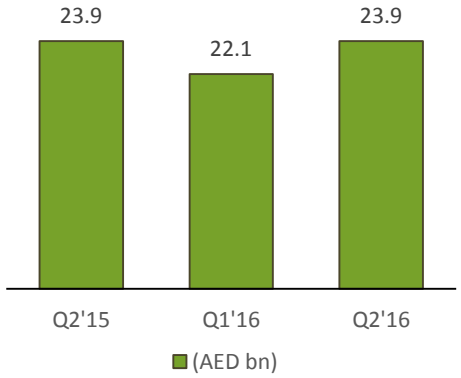
In **Maroc Telecom**, capital expenditure for the second quarter decreased by 10% year over year to AED 0.6 billion resulting in a capital intensity ratio of 20%. This decrease is attributed to the cost of acquiring 4G license in Morocco last year. Excluding licnese cost from prior year, capex would increase year-over-year by 56% on a like for like basis. About 62% of capex spend of is committed to expansion of 4G

coverage and extending Fibre Optic network in Morocco. Remainder balance of 38% capex spend was allocated to international operations mostly Moov entitles focusing on network expansion and capacity upgrade.

In **Egypt** capital expenditure for the second quarter increased by 43% year over year to AED 0.3 billion resulting in a capital intensity ratio of 27%, 9 points higher than the same period of prior year. Capital spending focused on network roll out and capacity enhancement.

In **Pakistan**, capital expenditure for the second quarter decreased by 9% year over year to AED 0.3 billion resulting in a capital intensity ratio of 27%. Capital spending during the quarter mainly focused on enhancement of the mobile network.

Debt



Total consolidated debt amounted to AED 23.9 billion as at 30 June 2016, at same level in comparison to 30 June 2015 and increased by AED 1.8 billion as compared to at 31 March 2015.

As at 30 June 2016, the total amounts issued under the global medium term note (GMTN) programme split by currency are US$ 1.4 billion and Euro 2.4 billion, representing a total amount of AED 14.8 billion.

Consolidated debt breakdown by operations as of 30 June 2016 is as following:

- Etisalat Group (AED 15.3 billion)
- Maroc Telecom (AED 5.0 billion)
- Etisalat Misr (AED 2.3 billion)
- PTCL Group (AED 1.3 billion)

More than 74% of the debt balance is of long-term maturity that is due beyond 2017.

The currency mix for external borrowings is 40% in Euros, 23% in USD, 15% on Moroccan Dirham and 9% in Egyptian pounds and the rest in various currencies.

Consolidated cash balance amounted to AED 24.7 billion as of 31 March 2016 leading to a net cash position of AED 2.7 billion.

Profit & Loss Summary

(AED m)	Q2'15	Q1'16	Q2'16	*QoQ*	*YoY*
Revenue	13,124	12,853	13,326	+4%	+2%
EBITDA	6,810	6,424	6,799	+6%	0%
EBITDA Margin	52%	50%	51%	+1pp	-1pp
Federal Royalty	(1,920)	(1,680)	(1,788)	+6%	-7%
Net Profit	1,534	2,001	2,315	+16%	+51%
Net Profit Margin	12%	16%	17%	*+2pp*	*+6pp*

Balance Sheet Summary

(AED m)	Dec'15	June'16
Cash & Cash Equivalents	21,422	19,332
Total Assets	128,265	126,077
Total Debt	22,080	23,897
Net Cash / (Debt)	(658)	(4,566)
Total Equity	59,375	58,529

Cash Flow Summary

(AED m)	June'15	June'16
Operating	5,576	4,862
Investing	(3,419)	(3,484)
Financing	(2,170)	(3,552)
Net change in cash	(13)	(2,173)
Effect of FX rate changes	*(251)*	*99*
Reclassified as held for sales	(1)	(17)
Ending cash balance	18,277	19,332

Foreign Exchange Rates	Average Rates			Closing Rates		
	Q2'15	Q2'16	YOY	Q2'15	Q2'16	YOY
EGP - Egyptian Pounds	0.4816	0.4145	*-13.9%*	0.4814	0.4152	*-13.8%*
SAR - Saudi Riyals	0.9794	0.9794	*0.0%*	0.9795	0.9794	*0.0%*
CFA - Central African Francs	0.0062	0.0063	*1.5%*	0.0063	0.0063	*-0.5%*
NGR - Nigerian Naira	0.3758	0.0173	*-95.4%*	0.3782	0.0162	*-95.7%*
PKR - Pakistani Rupees	0.0185	0.0351	*89.7%*	0.0185	0.0351	*89.7%*
AFA - Afghanistan Afghani	0.0361	0.0535	*48.3%*	0.0361	0.0536	*48.5%*
LKR – Sri Lankan Rupees	0.0632	0.0250	*-60.4%*	0.0624	0.0250	*-60.0%*
SDG - Sudanese Pounds	0.0275	0.5756	*1993.0%*	0.0275	0.5756	*1993.0%*
MAD - Moroccan Dirham	0.5871	0.3783	*-35.6%*	0.5871	0.3773	*-35.7%*

Reconciliation of non-IFRS Financial Measurements

We believe that EBITDA is a measurement commonly used by companies, analysts and investors in the telecommunications industry, which enhances the understanding of our cash generation ability and liquidity position, and assists in the evaluation of our capacity to meet our financial obligations. We also use EBITDA as an internal measurement tool and, accordingly, we believe that the presentation of EBITDA provides useful and relevant information to analysts and investors.

Our EBITDA definition includes revenue, staff costs, direct cost of sales, regulatory expenses, operating lease rentals, repairs and maintenance, general financial expenses, and other operating expenses.

EBITDA is not a measure of financial performance under IFRS, and should not be construed as a substitute for net earnings (loss) as a measure of performance or cash flow from operations as a measure of liquidity. The following table provides a reconciliation of EBITDA, which is a non-IFRS financial measurement, to Operating Profit before Federal Royalty, which we believe is the most directly comparable financial measurement calculated and presented in accordance with IFRS.

(AED m)	Q2'15	Q1'16	Q2'16
EBITDA	6,810	6,424	6,799
Depreciation & Amortization	(1,817)	(1,858)	(1,893)
Exchange Gain/ (Loss)	(207)	(337)	32
Share of Associates and JV's results	(215)	(4)	(10)
Impairment and other losses	(12)	0	(22)
Operating Profit before Royalty	4,559	4,225	4,906

Disclaimer

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This Presentation includes certain "forward-looking statements". Such forward looking statements are not guarantees of future performance and involve risks of uncertainties. Actual results may differ materially from these forward looking statements.

About Etisalat Group

Etisalat Group is an international, blue-chip organisation with operations in 18 countries across the Middle East, Africa and Asia. It is one of the leading telecom operators with one of the largest market capitalization among Middle East, African and Asian telcos. It is a highly rated telecom company with ratings from Standard & Poor's and Moody's (Aa3/AA-).

Etisalat's shareholding structure consists of 60% held by the Emirates Investment Authority and 40% free float. Etisalat *(Ticker: Etisalat)* is quoted on the Abu Dhabi Stock Exchange (ADX).

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